Saving Africa's private sector jobs during the coronavirus pandemic

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Key messages:

- As a result of the coronavirus pandemic, Africa's private sector is facing a very large recession, the likes of which has not been seen for 25 years. This is putting more than 20 million jobs and many livelihoods at risk, and pushing millions into poverty.
- Africa is unable to provide the economic stimulus required to protect jobs. This will put in jeopardy many years of private sector development and job creation on the continent, and is wiping away hopes of a resilient recovery. There is an urgent need to provide additional liquidity for Africa's private sector.
- International donors have begun to step up their support to African public sectors, through, for example, World Bank, IMF, WHO and European Commission aid.
- European Development Finance Institutions and their shareholders must step up with additional resources and use their links with the domestic banking sector and their competencies to channel liquidity to Africa's private sector.
- European DFIs support millions of jobs in Africa, often highly productive ones that have strong interlinkages with the rest of the economy. These direct and indirect jobs must be protected in the recession as they will be crucial to Africa's bounce back.
- For that European DFIs need to immediately boost the liquidity support for investee firms, increase their risk tolerance, relax debt servicing requirements where necessary, provide scarce foreign exchange when needed, come up with innovative support mechanisms including credit guarantees to deliver countercyclical support and set up a bounce back better and recapitalisation vehicle to inject equity into otherwise viable firms hit by the crisis.
- This will require new capital, increased risk tolerance, temporary suspension of minimum return requirements and new credit lines and guarantees from donors of between € 2-5 billion. This will allow European DFIs not only to protect the jobs they support but also to prevent the loss of jobs in otherwise viable firms.

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1. Introduction

Africa is facing a series of shocks that are leaving many jobs and livelihoods at risk. By early February 2020, and without a single case of the coronavirus, Africa was already facing severe economic consequences as a result of the pandemic (Raga and te Velde, 2020). Recently, the combination of global economic recession and domestic lockdowns has hit African countries hard. Exports have plummeted and capital has flown out. The effects have been particularly harsh for Africa's private sector jobs, putting at risk development and transformation achievements made over the past 10 years. Poverty will increase rapidly.

Rescue stimulus packages in developed countries are providing a balanced and ambitious approach and recognise public and private sector challenges. Not so in poorer countries, which cannot match the firepower of developed countries to engineer a sizeable stimulus. Meanwhile, where donor support has been forthcoming, it is all too often neglecting or insufficiently supporting the private sector. This note argues that additional liquidity and longer-term funding need urgently to be made available to protect jobs and past transformation efforts.

This note discusses the latest evidence on the socioeconomic costs of the coronavirus in Africa (Section 2). It then discusses the economic policy response in Africa (Section 3). Section 4 discusses emerging international donor responses, especially from Europe. Section 5 argues there is a lack of attention in the international and European donor responses to supporting the private sector, unlike the response within Europe itself. Without such support, there will be no private sector to lead the recovery and pull Africa out of the recession.

2. The socioeconomic costs of the coronavirus in Africa

The lockdown in China from late January has already had major impacts globally (Raga and te Velde, 2020). Since then, other Asian, European, African and North and Latin American countries have gone into lockdown or containment, with significant effects for the global economy and the poorest and most vulnerable countries. UNCTAD (2020) estimates a $2.5 trillion cost to developing countries. WTO (2020) expects world trade to fall this year by between 13% and 33%.

ILO (2020) expects the crisis to wipe out 6.7% of working hours globally in the second quarter of 2020 – equivalent to 195 million full-time workers. In Africa, it expects a loss of 19–22 million jobs. This is concerning, especially as only 17.8% of African workers are covered by social protection schemes, compared with 45.2% of workers globally. Sumner et al (2020) think up to half a billion people could be pushed into poverty (living on less than $1.90 a day) globally, if consumption contracts by 20%. This would be an additional 112 million poor in sub-Saharan Africa, a 25% rise, wiping away gains made in reducing poverty over many years.

Lower demand and economic contraction resulting from the COVID-19 lockdown are significantly reducing trade flows, as commodity prices fall and supply chains are disrupted: over 50% of Africa's trade takes place with countries highly affected by COVID-19 (UNECA, 2020c). Trade restrictions and cross-border blockages on the movement of people and goods have serious consequences (AU, 2020). They are preventing the flow of critical COVID-19-related health and medical products, increasing their costs by up to 23% on average (Espitia et al., 2020). They may also threaten food security by disrupting access to food and further reducing agricultural production (by up to 7% according to the World Bank, 2020). The COVID-19 crisis is also revealing the fragility of the food system, globally, in Europe and in Africa, as well as critical socioeconomic impacts, notably through trade linkages (Bizzotto Molina et al., 2020).

The impact of COVID-19 on tourism and transport is having major negative implications for trade in services, while the lockdown is reducing demand for business services while increasing internet costs in many developing countries (Mendez-Parra, 2020). Given the importance of informal trade in intra-Africa trade, socioeconomic consequences could be far reaching, particularly for women and more vulnerable people, with borders closed and transaction costs increasing significantly (World Bank, 2020).

Since late February, certain sectors of African economies have been hit by a collapse in global trade in goods, services and financial flows (AU, 2020; te Velde, 2020; UNECA, 2020a, 2020b). Examples of the trade decline include reductions in net oil African exports worth some $35–65 billion (hitting countries such as Angola, Equatorial Guinea and Nigeria); significant reductions in African tourism receipts (worth a total of $35 billion in 2018) affecting hotels, restaurants and airlines; reductions in flowers export from Ethiopia and Kenya; and major reductions in garments exports to the US (worth $1.2 billion in 2019) from countries including Kenya, Lesotho, Madagascar and others. This has affected the private sector in a major way, costing many jobs and putting in jeopardy years of attempts to transform economies. Further examples can be found in Table 1.

Table 1. Examples of economic and private sector impacts in African countries

Country	Examples of private sector impacts
Egypt	According to hoteliers and tour guides, the number of visits has dropped to 10% of its normal level, with some hotels reporting a zero occupancy rate. A full 80% of future reservations have been cancelled in recent days. Aviation firms alone stand to lose EGP 2.25 billion ($143 million).
Ghana	Tourism has suffered from travel restrictions. Hotel occupancy rates are down from 70% to under 30%, and restaurants were experiencing a 60% reduction in trade before the lockdown began.
Kenya	The flower sector has lost $75 million in exports in the past month as a result of lockdowns in Kenya's main markets in Europe. Flower farms already forced to send 1,000 workers home given the slump in demand. Kenya Airlines has applied for a bailout.
Liberia	Most of Liberia's key export commodities have recently seen global price falls, which could have significant impacts on growth (the forestry and mining sectors alone make up 23% of GDP). Liberia's largest export, iron ore, has seen prices fall by 12% in the year to date.
Madagascar	Madagascar usually welcomes 300,000 tourists per year. The tourism industry, which usually contributes 16% of GDP, has ground to a halt
Nigeria	With crude oil exports generating 76% of Nigeria's foreign exchange (and 11.8% of GDP), the fall in the price of oil by 60% since the start of 2020 to below $30 a barrel has dramatically reduced export revenues. It is predicted that the reduction will cut export revenues by $5 billion (1.3% of GDP) over three months and $8.6 billion (2.2% of GDP) over six months. Across the year, it is estimated the value of exports will fall by 34% as a result of the oil price shock alone. Other sectors have also been affected. Cocoa, which dominates the agricultural export sector, has seen prices fall by approximately $292/ton. Nollywood, the second largest source of jobs in the country, employing around 1 million people, is facing challenges.
Rwanda	The international tourism industry is particularly affected; by 20 March, the Rwandan Hoteliers Association had already reported losses in excess of $14 million (0.15% of GDP) and the risk of job losses in the sector. At present, tourism and hospitality alone accounts for 142,000 jobs.

Source: ODI-SET Country Analyses available here

UNECA (2020b) argues that compressed demand in important African external markets presents severe risks to livelihoods. The impact of global lockdowns on coffee and tea demand is one illustration of supply chain links back to Africa that could put 4 million smallholder farmers in Ethiopia, 500,000 households in Uganda and 700,000 smallholder farmers and 3,000 large farms in Kenya at risk. The same question on value chain resilience arises for garment production in Ethiopia and Kenya, where private firms could shed up to 37,000 and 38,000 formal workers, respectively, as a result of the reduction in offline spending in apparel in affected markets in Europe. This will have knock-on effects on cotton prices in Benin, Burkina Faso, Mali and Zimbabwe.

UN Secretary-General Antonio Gúterres argues that millions of women's jobs have disappeared. Women are often more vulnerable to the impacts of the pandemic (UNFPA, 2020), notably because of their predominant roles in community-based activities, as principal caregivers and as predominant (formal and informal) health care providers, and their dependence on agriculture and services activities, affected by COVID-19 (World Bank, 2020). Women also play a dominant role in informal cross-border activities in Africa, which the closure of national borders to trade is threatening. Besides, women entrepreneurs, in both the formal and the informal economy, traditionally face more difficulties in getting access to finance, which may be further restricted by the liquidity constraints resulting from the COVID-19 pandemic.

Private capital flows have been withdrawn from emerging markets at a record pace (IIF, 2020), and this is also affecting African countries – which received $15 billion in portfolio flows in 2018. Bond yields have shot up in countries such as Angola and Zambia, stock markets are down and currencies are devaluing. Between 1 January 2020 and 6 April 2020, bond yields for some African countries increased significantly in basis points: South Africa (279 bps); Namibia (205 bps); and Nigeria (108bps). FDI worth $46 billion in 2018 is already expected to decrease by 15–20%.

Africa received remittances worth $46 billion in 2018, and UNECA (2020b) reports that the continent was projected to receive up to $65 billion in remittances in 2020. These will now be down significantly. Small island developing states, LDCs and countries emerging from conflict will be hard hit, as many of them depend on remittances, which also make up a large share of their GDP.

McKinsey (2020) suggests GDP growth may reduce by 3–8 percentage points in 2020, equivalent to a loss of $90–200 billion. AU (2020) suggests the GDP cost could be up to 4.5%. Studies by UNECA (2020b) and te Velde (2020) suggest around a $100 billion shortfall, for Africa and sub-Saharan Africa respectively (this is 5.6% of 2018 GDP in sub-Saharan Africa). ILO (2020) and AU (2020) put potential job losses in Africa at 19 million. UNECA (2020b) estimates this will be accompanied by a 10% increase in employment vulnerability. UNECA (2020b) further estimates that the impacts on African economies will lead to up to 29 million people being pushed back into extreme poverty of under $1.90 a day. The situation is made worse because 17% of households affected by COVID-19 in Africa will face at least transient poverty, with a reduced probability of being able to get out of this in the next decade. All this will compound the loss of gains that had already been made before COVID-19 in terms of job creation and poverty reduction.

The lockdowns announced in Africa last month will only increase the costs further. OECD (2020) estimates that annual GDP growth will decline by 2 percentage points for each month through lockdown. The central bank in South Africa projects that the 21-day nationwide lockdown could result in a 2.6 percentage points contraction in the country's output growth in 2020.

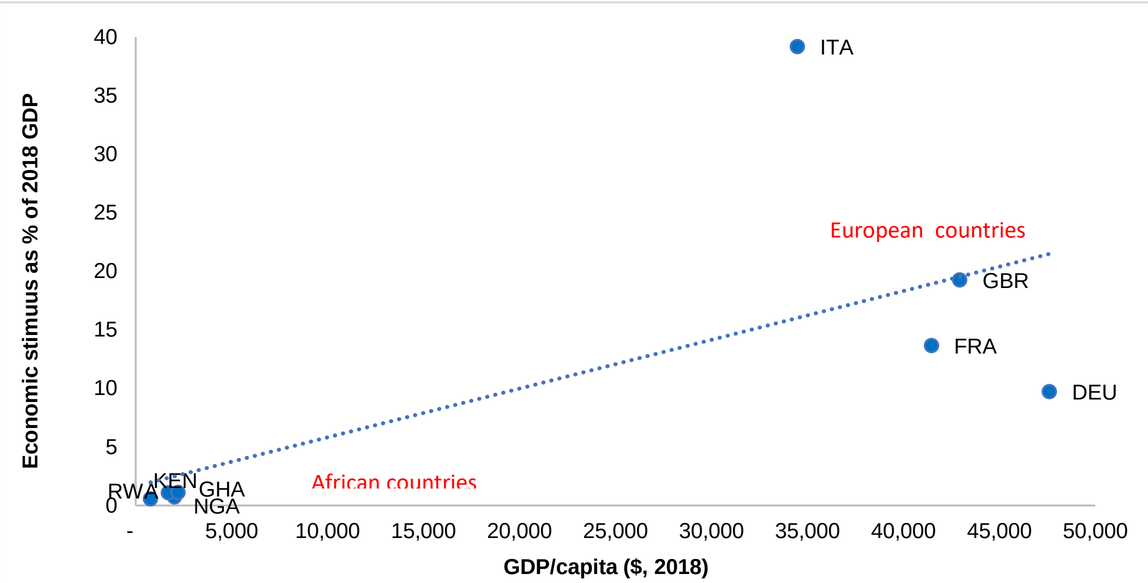
Meanwhile, as well as severe costs now, there are further risks that any recovery will not take hold in Africa, given a very weakened private sector. While global discussions are taking place on the timing and shape of the recovery, in Africa the future outlook is bleak, and will be L-shaped (not V- or even U-shaped) if many private sector firms that normally would lead the recovery are going bankrupt now.

3. African responses so far

Africa has had the same lockdowns as in Europe but there has been limited economic policy response so far. UNECA (2020b) shows that a weak macro-fiscal situation in Africa before COVID-19, including high external debt levels, is already limiting the ability of these countries to put in place a strong economic response.

In 2019, more than half of African countries had fiscal deficits above 3%, and, with rising borrowing costs, fiscal space for strong action is highly compromised. Consequently, the average economic stimulus in the poorer African countries (0.8% on average) is 20 times lower than in Europe (18% of GDP for France, Germany, Italy and the UK).

Figure 1. Stimulus packages as share of GDP by level of income



Source: ODI policy tracker

A few African governments have supported their private sector, protecting firms so they do not need to sell assets and fire workers. Ethiopia has extended credit facilities to strategic sectors, including manufacturing and horticulture, that are being affected by reduced demand for exports. Ghana has put in place a six-month moratorium on principal repayments to entities in the airline and hospitality industries, which have been particularly affected by the crisis (e.g. hotels, restaurants, car rentals, food vendors, taxis and Uber operators). But this is a timid response with too few funds.

4. The international and European response

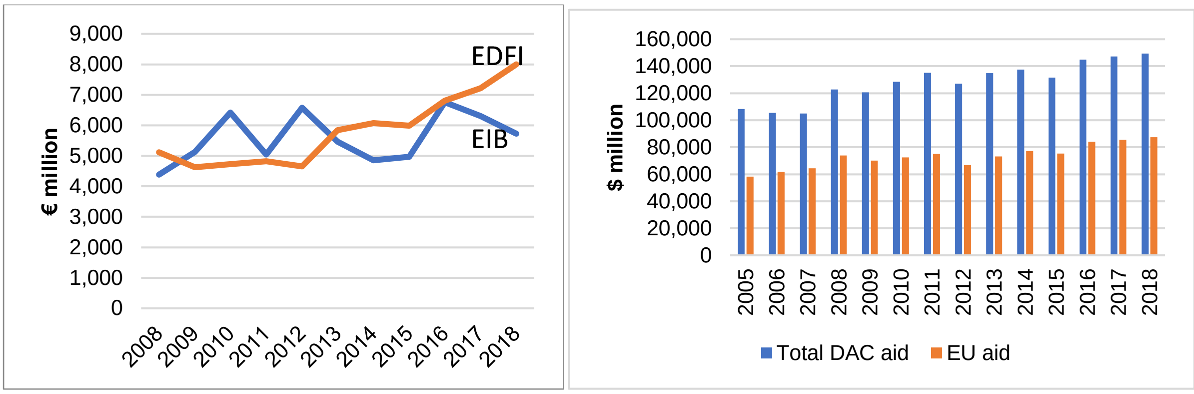
Re-cap on responses to the Global Financial Crisis

During the global financial crisis of 2008–2010, not all flows were countercyclical. Development banks, especially those supporting public sector projects, were indeed countercyclical. Figure 2 shows the EIB was countercyclical in 2009–2010, as were the World Bank and especially AfDB. However, European Development Finance Institutions (EDFIs) were not sufficiently so. Total OECD DAC aid and EU aid were not countercyclical in 2009 and 2010.

Figure 2. OECD aid and European aid and development finance

European development finance new commitments

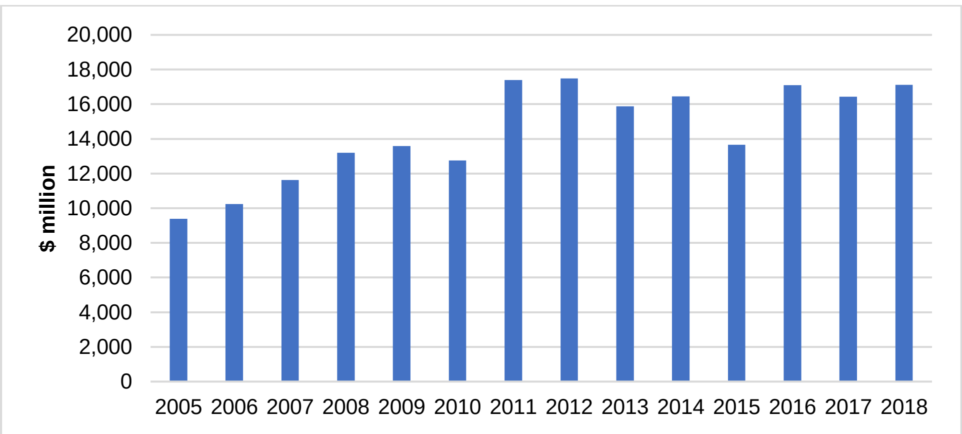
OECD and EU aid



Sources: EIB and EDFI

European Commission aid was countercyclical in 2009 (Figure 3), though combined aid by the Commission and EU member states was not (Figure 2).

Figure 3. European Commission aid



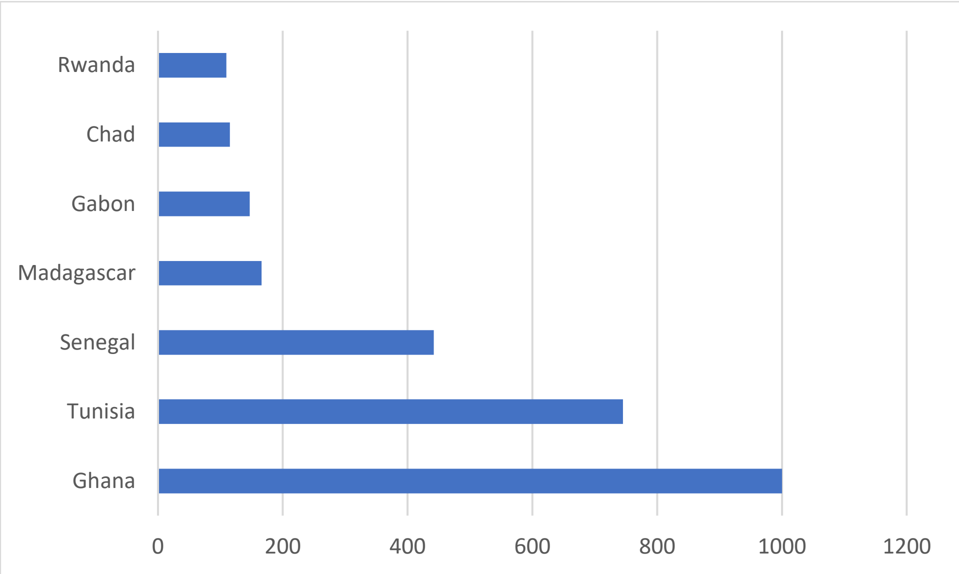
Source: OECD

Current responses

To fight the current coronavirus crisis, the World Bank Group, the IMF, AfDB and bilateral donors are stepping up to address the pandemic and its health implications, and to support cash-strapped governments across the continent. However, more is needed – and with an additional focus. Under the auspices of UNECA and the AU, African leaders have called for $100 billion for immediate health and social safety net needs. Another $100 billion is required as part of an economic stimulus, and part of this needs to go towards saving the African private sector. A temporary debt standstill for two years is proposed to enable the immediate creation of fiscal space to deal with the health emergencies. In order to ensure a solid recovery, back to where the continent was before COVID-19, Africa is also arguing for and supporting a proposal for enhanced access to the IMF Emergency Financing Facility as well as increased Special Drawing Rights allocations.

The IMF has argued it can use $1 trillion to respond to the 90+ countries that have approached it for emergency balance of payments support. The IMF has so far approved $2.7 billion for African governments.

Figure 4. Country allocations by the IMF (by 13 April 2019)



Source: IMF

The World Bank Group will spend $160 billion in the coming 15 months. It has announced $14 billion worth of spending, of which $6 billion from the World Bank and $8 billion from the IFC will go to support the private sector. The World Bank's COVID-19-specific fund has already disbursed $2 billion to 26 countries (as of early April 2020), of which $1.5 has gone to Africa.

The EU announced its global response on 8 April 2020. As recommended by Bilal and te Velde (2020), the European Commission is seeking to mobilise a wide range of its development tools to tackle the pandemic, reallocating, front-loading and fast-tracking its existing aid. Mobilising **over €20 billion** for its global package, the EU will allocate:

- €502 million for **emergency response actions** to address the immediate health crisis and resulting humanitarian needs;
- €2.8 billion to **support research, health and water systems**, to improve hygiene and make health, water and sanitation systems more resilient, as well as to support developing country research capacity to deal with the COVID-19 crisis**;** and
- €12.28 billion to **address the economic and social consequences**, including through budget support, public sector lending and debt relief, as well as some private sector finance.

The EU has adopted a 'Team Europe' approach, in an effort to strengthen its internal coordination, among EU institutions and EU member states, and their financial institutions, notably the EIB and the EBRD.

There will be €3.25 billion for Africa (European Commission, 2020a). It is not clear how much of this will be made available for the private sector. The EIB still needs to announce its response for Africa. We expect it to (i) accelerate disbursements; (ii) reorient eligibility; and (ii) repurpose loans. A COVID-19 Crisis Toolkit may provide €1.35 billion for sub-Saharan Africa. It also includes response initiatives that are for the private sector, including a health preparedness partnership, access to finance for business, economic resilience support and responses for corporates. Loans will be provided with interest rate subsidies. However, the latter is only €1.6 billion for all ACP countries. Also, these are not additional resources, but reallocations.

The EU also aims to actively focus on international cooperation and multilateralism, notably through the G7, the G20 and the UN system.

While the immediate EU global response is encouraging, it faces many challenges. To be truly comprehensive, it still needs to be complemented by multiple other financial, humanitarian and regulatory tools (Jones et al., 2020). The EU approach to Africa, outlined in early March 2020 in the European Communication Towards a Comprehensive Strategy with Africa (European Commission, 2020b), needs to be readjusted to address the new crisis confronting both continents (Laporte, 2020).

AfDB is considering a $10 billion COVID response facility. This would include $5.5 billion for sovereign operations in AfDB countries, and $3.1 billion for sovereign and regional operations for countries under the African Development Fund, the Bank

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